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January 4, 2001

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Salas  
Secretary  
Federal Communications Commission  
Room TW-A325, The Portals  
445 Twelfth Street, S. W.  
Washington, DC 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC Communications, Inc., Transferee, (CC Docket No. 98-141)

Dear Ms. Salas:

Pursuant to Condition XXIV Additional Service Quality Reporting" (Condition 24) in Appendix C (Merger Conditions) regarding the SBC Communications Inc.'s (SBC) compliance with the conditions set forth in the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger,<sup>1</sup> SBC submits herein the report of its independent auditor, Ernst & Young LLP, regarding the Company's compliance during the period October 8, 1999 through December 31, 1999. As noted in its letter released on August 14, 2000, the FCC granted an extension of time for SBC to report on Condition 24, Additional Service Quality Reporting, until December 31, 2000.<sup>2</sup> A further extension of time until January 4, 2001 was subsequently granted.<sup>3</sup>

Once SBC has had an opportunity to thoroughly conduct a review of this report and the auditor's work papers, SBC will be prepared to respond to or otherwise address any issues contained in them.

Sincerely,

  
Attachments

cc: Ms. Carol Matthey  
Mr. Anthony Dale  
Mr. Hugh Boyle  
Mr. Mark Stephens

<sup>1</sup> *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999) (Merger Order).*

<sup>2</sup> *Letter from Ms. Carol Matthey, FCC, to Mr. James Callaway, SBC, adopted August 11, 2000 and released August 14, 2000.*

<sup>3</sup> *Letter from Ms. Carol Matthey, FCC, to Ms. Sandra Wagner, SBC, released December 22, 2000.*

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## Report of Independent Accountants

### Management of SBC Communications Inc.

We have examined management's assertion, included in the accompanying Report of Management on Compliance with Additional Service Quality Reporting Requirements, that SBC Communications Inc. (the "Company") complied with Merger Condition 24, "Additional Service Quality Reporting" ("Condition 24"), in Appendix C (the "Merger Conditions") of the Federal Communications Commission's ("FCC's") Order approving the SBC/Ameritech Merger<sup>1</sup> during the period October 8, 1999 through December 31, 1999 (the "Evaluation Period"). Management is responsible for the Company's compliance with the Merger Conditions. Our responsibility is to express an opinion on management's assertion regarding the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with the requirements of Condition 24 and performing such other procedures as we considered necessary in the circumstances. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

The Merger Conditions require the independent accountant to attest to the accuracy and completeness of the performance data provided to telecommunications carriers and regulators under the Merger Conditions. Based on the Company's understanding of the Merger Conditions and as discussed with the FCC Staff, the Company does not believe that the scope of the independent accountant's attestation engagement regarding the Company's compliance with the Merger Conditions applies to the accuracy and completeness of service quality data in conjunction with Condition 24, but rather applies to the accuracy and completeness of performance measurement data provided to telecommunications carriers and regulators in conjunction with Condition 7, "Carrier-to-Carrier Performance Plan." Under the FCC Staff's understanding of the Merger Conditions, the term "performance data" applies to both Condition 7 and Condition 24. Upon agreement between the FCC Staff and the Company, Ernst & Young was requested to perform procedures and report on the accuracy and completeness of eight service quality measurements discussed in management's assertion.

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<sup>1</sup> *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999).*

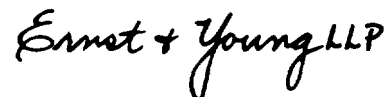
Management of SBC Communications Inc.

Page 2

Attachment A to management's assertion includes reference to a meeting held on November 3, 1999 between the Company and the FCC at which we were not in attendance. Accordingly, we are unable to report on management's assertion related to the matters discussed at that meeting.

In our opinion, management's assertion that the Company complied with Condition 24 (except for the portion of management's assertion described in the preceding paragraph above and based on the Company's understanding of the Merger Conditions described in the second preceding paragraph above), including the Company's filing of an accurate annual compliance report, and management's assertion as to the accuracy and completeness of the eight service quality measurements discussed above, as initially filed with the FCC during the Evaluation Period, are fairly stated, in all material respects except for certain calculation errors and certain instances in which the Company included/excluded data from the service quality measurement calculations in a manner that was not consistent with the NARUC Technology Policy Subgroup "Service Quality White Paper," adopted November 11, 1998 for the eight service quality measurements. The nature and disposition of these items are detailed in management's assertion and related Attachment A.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



January 3, 2001



## **Report of Management on Compliance With Additional Service Quality Reporting Requirements**

Management of SBC Communications Inc. (SBC or the Company) is responsible for complying with the requirements set forth in "Condition XXIV Additional Service Quality Reporting" (Condition 24) in Appendix C (Merger Conditions) to the Federal Communications Commission's (FCC's) Order approving the SBC/Ameritech Merger<sup>1</sup> effective October 8, 1999 (Merger Close Date). Management is also responsible for establishing and maintaining effective controls over compliance with Condition 24.

Condition 24, which may be found at Paragraphs 62 and 63 of the Merger Conditions, sets forth the filing requirements for "Additional Service Quality Reporting" data. Pursuant to the express language of Condition 24, SBC is committed to (1) filing with the FCC on a quarterly basis, state-by-state retail service quality reports in accordance with the retail service quality reporting recommendations of the NARUC Technology Policy Subgroup "Service Quality White Paper" (adopted November 11, 1998) (White Paper), (2) reporting on a quarterly basis separately for each of its operating companies ARMIS local service quality data in accordance with Table 1 of ARMIS Report No. 43-05, and (3) including this service quality data on an SBC/Ameritech Internet website or otherwise making such data available to the state commissions in the SBC/Ameritech states. Upon agreement between the FCC and SBC, Ernst and Young LLP was requested to perform procedures and report on the completeness and accuracy of eight reporting items, as listed below, included on the service quality reports filed as a requirement of Condition 24 in accordance with the White Paper.

Management has performed an evaluation of SBC's compliance with the requirements of Condition 24. SBC has also performed an evaluation of the accuracy and completeness of the service quality data reported for eight of the items called for by the White Paper for the period October 8, 1999 through December 31, 1999 (the Evaluation Period).<sup>2</sup> The eight items are as follows:

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<sup>1</sup> *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999) (Merger Order.).

<sup>2</sup> The express language of Condition 24, and SBC's intent in proposing and agreeing to this condition, was to initiate a requirement to file service quality reports pursuant to the White Paper in all of the SBC/Ameritech states, to increase the frequency with which SBC filed ARMIS service quality reports, and to ensure the availability of both such reports to the state commissions. It is SBC's understanding that Condition 24 was not intended to modify longstanding Company processes and procedures utilized prior to the Merger Closing Date to produce and report NARUC and ARMIS service quality data. Moreover, it is SBC's understanding that nothing in Condition 24 was intended to subject SBC to any higher reporting standards than those generally applicable to the industry at large. It was on this basis that SBC agreed that E&Y would perform procedures and report on the accuracy and completeness of eight of the reporting items called for by the White Paper. SBC agreed to these limited audit procedures in order to assist SBC and the FCC to better understand and evaluate certain service quality report results.

**Report of Management on Compliance  
With Additional Service Quality Reporting Requirements**

Installation		Repair	
Line 0100	# Orders for Basic Service	Line 0360	#Out of Service over 24 hours
Line 0110	# Completed within 5 working days	Line 0370	Average Repair Interval (hours)
Line 0120	# Delayed over 30 days	Line 0380	# Missed repair commitments
Line 0130	#Missed commitments – Co. Reason	Line 0390	# Total repair commitments

Based on this evaluation, we assert that SBC complied with all requirements of Condition 24. In addition, service quality data for the eight reporting items above, for the Evaluation Period, was complete and accurate except as noted in Attachment A. In a few instances, the Company included/excluded data from the service quality measurement calculations in a manner that was not consistent with the White Paper's guidelines. The instances are noted in Attachment A. The Company's compliance with Condition 24 is further detailed below:

1. SBC timely filed with the FCC on a quarterly basis, state-by-state retail service quality reports.
2. SBC reported on a quarterly basis ARMIS local service quality data required by the FCC separately for each of its operating companies in accordance with Table 1 of ARMIS Report No. 43-05.
3. SBC included this service quality data on an SBC/Ameritech Internet website or otherwise made such data available to the state commissions in the SBC/Ameritech states.
4. On March 15, 2000, SBC filed an annual compliance report accurate to the best of its knowledge and belief at the time that it was filed with the FCC, which detailed its compliance with Condition 24 for the Evaluation Period.

**Report of Management on Compliance  
With Additional Service Quality Reporting Requirements**

SBC Communications Inc.

by: Van H. Taylor  
Van Taylor  
**SR VP-NETWORK SERVICES STAFF**

Date: 1/3/01

**Report of Management on Compliance  
With Additional Service Quality Reporting Requirements**

SBC Communications Inc.

by: C.C. Caw

SR EXEC VICE PRES -EXTERNAL AFFRS

Date: 1/3/01

**Report of Management on Compliance  
With Additional Service Quality Reporting Requirements**

**Attachment A**

***Service Quality Reports Restatements***

The following item is associated with a NARUC White Paper report item that was initially reported incorrectly by one SBC company, but this was self-identified, corrected and restated for the Evaluation Period.

1. Line 120: Installation Orders Delayed Over 30 Days
  - a. Pacific Bell: Due to clerical errors (i.e., source data inadvertently posted incorrectly) which were self-identified by SBC, business data for October and November 1999 and residence data for October 1999 was restated on November 3, 2000.

***Service Quality Reports Prospective Changes***

SBC made an effort to ensure that all companies were reporting all items consistently and uniformly across all its operating companies in order to be in conformance with the NARUC White Paper. However, the audit revealed that Southwestern Bell Telephone Company (SWBT), Ameritech (AIT), and Pacific Bell/Nevada Bell were reporting items differently.

In order to ensure consistency among all SBC operating companies, the following prospective changes in reporting will be made:

1. Line 100: Orders for Basic Service and  
Line 110: Installation Orders for Basic Service Completed Within 5 Working Days
  - a. Southwestern Bell Telephone Company (SWBT): Orders with customer requested due dates in excess of 5 days were excluded from these report items during the Evaluation Period. SWBT will modify its processes prospectively to include orders for customer requested due dates in excess of 5 days.
2. Line 120: Installation Orders Delayed Over 30 Days
  - a. Southwestern Bell Telephone Company (SWBT) and Pacific Bell/Nevada Bell (PB/NB): During the Evaluation Period, SWBT and PB/NB reported an order as “delayed over 30 days” if, as of the first day of the month the pending order had been delayed for 30 or more days. SWBT and PB/NB did not identify orders as “delayed over 30 days” continuously throughout the month. SWBT and PB/NB will modify their reporting processes prospectively to report all orders that were not complete within 30 days (i.e., that were “delayed over 30 days”) throughout the month.
3. Line 390: # of Total Repair Commitments
  - a. Southwestern Bell Telephone Company (SWBT): SWBT excluded “no access reports” from the number of total repair commitments during the Evaluation Period. This was self-identified by SBC. The Company has modified its reporting processes and will include prospectively “no access” reports in the total number of repair commitments.



- b. Ameritech (AIT): AIT determined that they had been inadvertently double counting repeat reports in the data for total repair commitments. The Company has modified its reporting practices to ensure that such double counting does not reoccur.

### ***Service Quality Reporting Calculation Differences***

For the following NARUC White Paper line items, differences were noted in the amounts originally reported by the Company and subsequently recalculated by E&Y using the archived data supplied by the Company and criteria utilized by the Company to calculate reported results. These differences fall into two categories: 1) instances at SWBT where total reported results for a particular line item recalculated by E&Y agreed to total reported results originally filed by the Company, however, disaggregated MSA and non-MSA results recalculated by E&Y for those line items did not agree to the disaggregated results originally filed by the Company; and 2) instances where E&Y's recalculated results could not be reconciled to the reported results originally filed by the Company either in total and/or on a disaggregated basis. The Company was not able to identify the cause of the differences but has committed to resolve these differences to determine if changes, if any, in the reported results need to be restated.

#### **1. Disaggregation Differences**

For the following items, E&Y obtained different disaggregated results than those obtained by SWBT for MSA and non-MSA results in the states identified below:

- a. Line 100: # Orders for Basic Service: SWBT (Missouri, Oklahoma, and Texas).
- b. Line 110: # Orders Completed Within 5 Working Days: SWBT (Missouri, Oklahoma, Texas).
- c. Line 130: # Missed Installation Commitments – Company Reason: SWBT (all states).

#### **2. Other Differences**

There were certain other results for which E&Y obtained different results either in total and/or on a disaggregated basis from Pacific Bell, Nevada Bell and Ameritech. The nature of these differences is still under investigation by the Company. Unless otherwise noted, differences existed in both the total and the disaggregated results:

- a. Line 100: # Orders for Basic Service: Pacific Bell (disaggregated only); Nevada Bell ; Ameritech (Indiana, , Wisconsin).
- b. Line 110: # Orders Completed Within 5 Working Days: Pacific Bell (disaggregated only), Nevada Bell), Ameritech (Indiana, Michigan, Ohio, Wisconsin).
- c. Line 120: # Installation Orders Delayed Over 30 Days: Ameritech (Ohio ).
- d. Line 130: # Missed Installation Commitments – Company Reason: Pacific Bell , Nevada Bell , Ameritech (Indiana had a disaggregated difference only, other AIT states had both disaggregated and total differences).
- e. Line 360: # Out of Service Over 24 Hours: Pacific Bell , Nevada Bell
- f. Line 370: Average Repair Interval (hrs): Pacific Bell (disaggregated), Nevada Bell (disaggregated).
- g. Line 380: # Missed Repair Commitments: Pacific Bell (disaggregated), Nevada Bell (disaggregated).
- h. Line 390: # Total Repair Commitments: Nevada Bell.

### ***Other Service Quality Reporting***

On November 3, 2000 and December 8, 2000, the Commission staff provided Ernst & Young (E&Y) with its interpretation of certain reporting items in the NARUC Technology Policy Subgroup "Service Quality White Paper," adopted November 11, 1998 (White Paper). SBC notes that, from the beginning, it was concerned that the information gathered be correct as well as timely filed. At SBC's request, SBC met with Commission staff on November 3, 1999 to discuss its interpretations of, and obtain the FCC staff's view concerning, the new service quality reporting requirements early in the reporting process. At that time, FCC staff orally informed SBC that they would contact SBC if they thought SBC needed to define changes to its reports. Nearly twelve months later, the FCC staff formally provided its interpretations of the report items under review. While SBC does not necessarily agree with the FCC staff's interpretations of the reporting requirements, based on the information recently provided to E&Y by the FCC staff regarding the FCC staff's suggested way to implement some of the report items, SBC will prospectively modify its report data beginning with the data submitted for the first quarter 2001. The data for the first quarter 2001 will be filed on or before May 21, 2001 pursuant to the schedule outlined in the SBC/Ameritech Merger Conditions. A summary of how SBC will prospectively modify its service quality reports is summarized below:

1. Line 100: Orders for Basic Service
  - a. All Companies: SBC was including all new (N), transfer (T) and change (C) orders, including orders for vertical services, in these report items during the Evaluation Period. This was consistent with the Company's understanding of the business rules for this measure as outlined to the Commission on November 3, 1999. However, the FCC staff recently informed SBC that it interpreted the White Paper differently. While SBC does not necessarily agree with the FCC staff's interpretations regarding the White Paper, SBC will modify its processes prospectively to exclude all orders for vertical services from these report items.
2. Line 380: # of Missed Repair Commitments
  - a. All Companies: During the Evaluation Period, consistent with its past practices, SBC excluded subsequent reports and no access reports from this measurement. Based on the White Paper's stated goals of relying on the data already collected by ILECs, and not incurring significant ILEC reporting burdens, SBC understood that its report was consistent with the White Paper. However, the FCC staff recently informed SBC that it interpreted the White Paper differently. While SBC does not necessarily agree with these interpretations, it will modify its processes prospectively to include all subsequent reports and no access reports in this report item.

3. Line 390: # of Total Repair Commitments

- a. All Companies: During the Evaluation Period, SBC excluded subsequent reports from this measurement based on its past practices. Based on the White Paper's stated goals of relying on the data already collected by ILECs, and not incurring significant ILEC reporting burdens, SBC understood that its report was consistent with the White Paper. However, the FCC staff recently informed SBC that it interpreted the White Paper differently. While SBC does not necessarily agree with these interpretations, it will modify its processes prospectively to include all subsequent reports and no access reports in this report item.

4. Inside Wire and Customer Premises Equipment:

(Line 360: # Out of Service Over 24 Hours; Line 370: Average Repair Interval; Line 380: # Missed Repair Commitments; and Line 390: # Total Repair Commitments).

- a. All Companies - During the Evaluation Period, SBC excluded all reports associated with inside wire and customer premises equipment (i.e., deregulated services). SBC is currently reviewing the FCC Staff's December 8, 2000 interpretation that these reports for deregulated services should be included in these report items.